

**STATEMENT OF  
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DIRECTOR, MINERALS MANAGEMENT SERVICE  
UNITED STATES DEPARTMENT OF THE INTERIOR  
BEFORE THE  
COMMITTEE ON GOVERNMENT REFORM  
UNITED STATES HOUSE OF REPRESENTATIVES**

**September 14, 2006**

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear here today to discuss the lack of price thresholds for the 1998 and 1999 leases in the deep water in the Gulf of Mexico. This issue has been of great concern to this Administration and the Department of the Interior in particular. On January 25, 2006, after questions were raised concerning these leases, the Director of the Minerals Management Service (MMS), Johnnie Burton, asked the Department's Inspector General, Earl Devaney, to investigate the absence of these thresholds in 1998 and 1999.

On Tuesday of this week, I received a letter from the Committee asking that I submit testimony on Wednesday, yesterday, addressing the testimony of the Inspector General for Interior. The Inspector General did not make his testimony available to the Department until yesterday. He makes broad and serious, yet vague, allegations. On behalf of the 70,000 employees of the Department of the Interior—both managers and their staff, I can affirm that the Department's culture is one of dedication to its multifaceted mission; a strong work ethic in behalf of the American people; and a commitment to accountability, efficiency, and effectiveness. The Department disagrees with the IG's broad-brush characterization. We take seriously any and all instances in which we find—whether through our own management efforts or from IG investigations—waste, fraud, ethical violations, and other inappropriate actions. We strive to address these matters consistent with available budget resources, statutory authorities, and requirements to treat employees fairly and through due process.

I will first discuss what we as a Department know and have done about the missing price thresholds in the 1998 and 1999 leases. I will then share with you what I believe is a story of significant management improvements over the last six years at Interior. Our efforts are a journey, not a final destination. We recognize that each day brings new challenges and requires renewed vigilance. Secretary Kempthorne underscored, during his very first day at the Department, his unwavering and unequivocal commitment to maintaining an ethical, accountable, and effective workforce in service to the American people. We are dedicated to fulfilling that expectation.

Royalty incentives were established in the Deep Water Royalty Relief Act of 1995 (Act) to encourage development of new supplies of energy. The purpose of this incentive was to promote investment in a particularly high-cost, high-risk area.

This Administration has taken a conservative approach to implementing royalty relief for deepwater leases:

- Once the royalty relief established by the Act became discretionary in 2001, we reduced the amount of royalty relief allowed on new leases.
- The Administration opposed the mandatory royalty relief provisions in the Energy Policy Act of 2005. A June 14, 2005, Statement of Administration Policy on the energy bill stated, “The President believes that additional taxpayer subsidies for oil-and-gas exploration are unwarranted in today’s price environment, and urges the Senate to eliminate the Federal oil-and-gas subsidies and other exploration incentives contained in the bill.”
- We have ensured that price thresholds limiting royalty relief when oil and gas prices are high have been included in all deep water leases we have issued.

### **Deep Water Royalty Relief Act and Mandatory Relief for Leases Issued in 1996-2000**

The Deep Water Royalty Relief Act of 1995 (Act) (Pub.L. No. 104-58), enacted on November 28, 1995, was designed to encourage development of new supplies of energy. It included incentives to promote investment in a particularly high-cost, high-risk area, the deep waters of the Gulf. These deep Gulf waters were viewed as having potential for large oil and gas discoveries, but technological advances and multi-billion dollar investments would be needed to realize that potential.

Since the enactment of the incentive, the deep waters of the Gulf of Mexico have become one of the most important sources of domestic oil and gas production. Just this month, Chevron announced that it had a successful production test for oil in the Gulf of Mexico's deep waters, in what could be one of the most significant economically recoverable finds for the domestic oil industry in a generation. The successful well, known as Jack 2, reached a record total depth of 28,175 feet, located in 7,000 feet of water and more than 20,000 feet under the sea floor.

The Act authorized the Secretary, in his or her discretion, to allow royalty relief for deep water projects and to adjust the amount of royalty relief, as appropriate, when oil and gas prices rise. However, for the first five years following enactment, the Secretary's discretion to allow royalty relief was restricted. During this time period, the Secretary was required to suspend royalties for certain volumes of production on all leases in more than 200 meters of water issued in the central and western Gulf of Mexico. These royalty suspension volumes (i.e., specified volumes of royalty-free production) ranged from 17.5 million to 87.5 million barrels of oil equivalent, depending on water depth. The royalty

suspension incentive was intended to provide companies that undertook these investments specific volumes of royalty-free production to help recover a portion of their capital costs before starting to pay royalties. Once the specified volume has been produced, royalties become due on all additional production. This was not a matter of agency discretion.

The Act also gave the Secretary authority to condition royalty relief on price levels, i.e. price thresholds. When oil exceeds a specified price on the market (i.e. the price threshold set in the lease), under the Act companies would then begin to pay a royalty for production. For leases that qualified for royalty relief and were issued prior to the enactment of the Act, price thresholds were mandatory. As stated above, the Act left it to the discretion of the Secretary whether to include price thresholds in leases issued after the enactment of the Act. In other words, both the inclusion and amounts of those thresholds were discretionary.

All deep water leases issued by the MMS in 1996, 1997, and 2000 after the enactment of the Act included price thresholds. Leases issued in 1998 and 1999 did not.

In February 1996, during the development of the regulations promulgated to carry out the Act, MMS asked the public in its advance notice of proposed rulemaking the following: “for tracts offered in upcoming sales, should price ceilings affect suspension volumes as for existing leases and units (pre-Act leases and units for which price ceilings were mandatory under the Act)?” A number of commenters responded that they believed the ceiling prices only applied to existing leases and that price ceilings should not affect new royalty relief.

Despite this commentary, there was no discussion of these comments or the issue at all in the interim rule issued March 1996. The one comment received on the interim rule did not address the issue of price thresholds. And again, the issue of price thresholds was not addressed in the final rule issued in January 1998. The final rule primarily focused on the policy decision made by the last Administration to award suspension volumes on a field basis rather than a lease basis. This interpretation did not later withstand court challenge.

The Subcommittee on Energy and Resources has referred to the final rule as a “faulty regulation” because price thresholds were not addressed. However, the documents gathered for this Committee’s investigation show that the previous Administration made a policy decision not to address price thresholds in the regulations, but rather to include these thresholds in individual lease sale documents. The previous Administration decided instead to reserve to the MMS the discretion to vary royalty suspensions under the Act in any manner it saw fit so long as the price thresholds, if any, were specified in the Notice of Sale published in the *Federal Register*

Based on the documents we have before us, it appears as though it was not until February 2000 that the missing price thresholds for 1998 and 1999 leases were noticed by the MMS. In an e-mail provided to the Committee dated February 22, 2000, Marshall Rose,

Chief Economist for MMS, mentions to Ms. Kallaur that the issue of the missing price thresholds in the 1998 and 1999 leases should be raised the next day at a meeting with the Director. Shortly thereafter the proposed addendum for Lease Sale 175 was revised to include specific price thresholds. Less than a year later, Ms. Kallaur provided the explanation quoted above. However, the Inspector General's investigative report may shed more light on the timing and awareness of all appropriate individuals.

### **Discretionary Relief for Deep Water Leases Issued Beginning in 2001**

The mandatory provisions of the Act expired in 2001. The Department chose to continue deep water royalty relief, with modifications, for Gulf of Mexico lease sales under the Act's discretionary provisions, but has taken a conservative approach. The amount of royalty relief allowed on new leases was reduced. With some revisions in subsequent years, the royalty relief program was changed to eliminate relief in shallower water depths (200-400 meters) and to set suspension volumes of 5 million to 12 million barrels of oil equivalent for each lease, depending on water depth. These relief volumes are substantially less generous than those offered under the mandatory provisions of the Act. In all deep water leases issued since March 15, 2000, price thresholds have been included that eliminate royalty relief when oil and gas prices are high. At today's prices, royalties are due on any production from these leases.

### **Deep Water Royalty Relief Mandated under the Energy Policy Act of 2005**

In 2005, in the Energy Policy Act, Congress extended and expanded the deep water royalty relief program. It affirmed the suspension volumes the Department had set administratively, mandated a greater volume of relief for the deepest waters (16 million barrels of oil equivalent in water depths greater than 2000 meters), and required that MMS use these suspension volumes for leases issued in sales held during the next 5 years. It also continued the policy of limiting royalty relief based on market prices, and expressly reaffirmed the Secretary's authority to do so.

### **Improvements at the Department of the Interior**

As I mentioned above, since 2000, all leases issued with deep water royalty suspension provisions have included lease addenda that specifically include price thresholds. Today, addenda text for each Gulf of Mexico Region (GOMR) lease sale is finalized only after a thorough review and consensus process is completed and documented. In addition, each Proposed and Final Notice of Sale and associated Royalty Suspension Provisions document receive detailed review and scrutiny by several offices in the GOMR, MMS Headquarters, and the Office of the Solicitor to ensure completeness and accuracy, especially from a price threshold perspective.

For recent sales, MMS has formalized a process of conducting all reviews in writing through the use of emails. Furthermore, MMS is placing paper copies of those emails in its official lease sale file as a record of these reviews and decisions. MMS is developing written standard operating procedures to ensure that these improved processes continue,

even if staff changes occur for reasons such as job reassignment or retirement. In addition for better documentation of the review process, we will also require that the Regional Director be formally briefed on the proposed contents of a notice of sale at both the proposed and final notice stages. This briefing will focus on any new items added to the sale notice, any removals from previous sales, and any modifications of language.

The Department is also ensuring that price thresholds are included in its regulations. Price thresholds were included in the 2002 Deep Gas in Shallow Water final rule and appropriate thresholds will be included in the regulations for any future royalty relief changes, including implementation of the royalty relief provisions of the Energy Policy Act of 2005.

In summary, under our supervision the situation that occurred in 1998 and 1999 has not happened again, and we are working diligently to make certain that it will not happen during future administrations.

### **Negotiation of Revisions to Leases**

The terms of a lease on the OCS are issued by the MMS and are not subject to negotiation by prospective lessees. Before a lease sale, MMS publishes the terms of the lease; first, at least 90 days before the sale in the Proposed Notice of Sale and then in the Notice of Sale issued at least 30 days prior to the sale. In the Notice of Sale, MMS provides a listing and a map of blocks available for lease, along with the terms of the sale. The terms include the per-acre minimum bid, the per-acre rental rate (which is charged until production begins), the royalty rate, any royalty relief and the terms thereof, including applicable price thresholds, and any stipulations as to environmental or other restrictions tied to specific blocks. After the sale, usually within 90 days, companies that submitted the high bids are notified whether their bid is accepted or rejected as inadequate. If accepted, the lease document is created by including the lease terms that were published in the Final Notice of Sale. The lease document is signed by the MMS OCS Regional Director and a representative of the lessee.

The Administration believes that the federal government must be a reliable business partner and must honor its contractual obligations, even when in retrospect the terms of those contracts appear unfavorable. The Administration, in a Statement of Administration Policy on H.R. 4761, the proposed "Deep Ocean Resources Act of 2006," strongly opposed efforts in the Congress to force certain companies to renegotiate these contracts or face a "conservation fee." The Department is engaged in voluntary negotiations with regard to the 1998 and 1999 leases that lack price thresholds. On June 30, 2006, MMS Director Burton sent letters to all 55 companies that own interests in these leases, inviting each of them to come in and talk to MMS to see if we can reach a mutual agreement that would resolve the price threshold problem. Approximately 20 of the recipients responded to the letter. To date, approximately half of those have met or have scheduled meetings with Departmental representatives.

Overall there were 1,032 deep water leases issued in 98-99. Our most recent data indicates that approximately 17 of these leases are currently producing; approximately 27 leases have indications of discovery that are not yet producing; over 500 leases are still active with no indications of discovery at this time, and over 450 leases have been relinquished or have expired at the end of their lease term. If a lease is not producing or has not had an appropriate level of activity that may lead to production, it will automatically expire at the end of its term, unless an approved suspension is issued.

As a result of our early discussions and, in preparation for follow-up meetings and further initial meetings with more lessees, we have developed proposed terms. We believe that a voluntary negotiation process is a fair and appropriate way to resolve the price threshold problem for the 1998 and 1999 leases and is consistent with the overall objectives of the Act.

### **Responsive to the Committee**

I wish to address the August 3, 2006 letter sent by the Committee and Subcommittee on Energy and Resources which alleges that the Department of the Interior might not share the Committee's sense of urgency with regard to its investigation of the missing price thresholds. That letter also alleges that critical information might have been deliberately held back from the Subcommittee. Neither allegation is correct. As Secretary Kempthorne told Chairman Davis when he called him immediately upon receipt of this letter, the Department has no interest in hindering in any way the investigation into this matter. In mid-August, full Committee staff met with MMS Director Burton and with Departmental staff and was briefed on our efforts with regard to the production of documents. We believe those briefings have put this issue to rest.

The Department looks forward to reviewing the report of the Inspector General and this Committee. We believe we have in place a system today under which the events of 1998 and 1999 would not reoccur. If there are recommended improvements that we have not yet made, we are open to considering and implementing them.

### **Department of the Interior Management and Ethics**

We recognize that problems of accountability and inappropriate performance do surface in individual instances across a bureau that spans 2,400 locations, thousands of contractors, and 70,000 employees who manage one in every five acres of the United States. The Department takes such actions seriously and strives to address them consistent with specific circumstances and in accordance with the law.

In particular, Interior takes seriously recommendations identified in audits, whether from internal or external auditors. We also actively seek to identify problems in ethics, accountability, and management.

Consider financial management. In 2001, we inherited 170 material weaknesses in program or financial controls. Since that time, four new weaknesses have been identified,

while we have corrected or downgraded 170 material weaknesses. These weaknesses, identified through the annual financial audit, are reported in the Department's Performance Accountability Report. Five years ago, the Department required nearly 5 months to complete its annual audit; for the past two years, the Department has completed the audit within 45 days of the close of the fiscal year and received an unqualified clean opinion. We continue to implement corrective actions for the 4 material weaknesses that remained as of the end of FY 2005; however, they are more complex to resolve, involving issues such as Indian trust as well as agreements between the Department and other agencies.

In addition to financial audits, we record all management and other recommendations generated by Interior's Office of the Inspector General and track our actions to address those recommendations. As of June 7, 2006, actions on 90 percent of all recommendations issued by the Office of the Inspector General (OIG) in FY 2005 had been initiated. The Department, on a quarterly basis, works with the Inspector General to reconcile the Department's data base with the Inspector General's data base pertaining to the number of outstanding recommendations and actions taken.

Recently, when the Inspector General raised concerns regarding whether corrective actions were being taken to address his office's findings, I immediately asked the Department's Office of Financial Management to provide a status of recommendations issued by the Inspector General in 2004 and 2005 and work with the Inspector General to reconcile any differences. We are continuing to work on this reconciliation. We are also expanding our review and oversight related to internal control issues to ensure follow up and additional supporting information related to corrective actions. These efforts will continue to improve our management environment and the consistency of our data with that of the Inspector General.

The Department established a management excellence performance goal that annually requires implementation of 100 percent of the audit recommendations scheduled for completion in that fiscal year. This performance goal includes recommendations from the Inspector General, Government Accountability Office, and financial audit. The goal is included in Senior Executive Service performance agreements of Chief Financial Officers and executives in all bureaus and offices responsible for program management. We report results for this goal annually.

**Ethics.** When Secretary Norton assumed office in 2001, the Inspector General reported to her the results of a 1999 management assessment of the ethics program. Subsequent to that and in consultation with the Office of Government Ethics, the Department made significant changes in its ethics program. A new director of the Departmental Ethics Office was selected, and the office was moved to the Office of the Solicitor. Weekly meetings now occur between the Departmental Ethics Office and the Chief of Staff, Deputy Chief of Staff, and the Deputy Solicitor to discuss ethics issues of both an individual or programmatic nature. The Department's Ethics Office has impressed upon Interior's bureaus the importance of having full-time ethics program managers at the headquarter level who, in turn, work with duly delegated ethics officials in field offices in

the management of the program and delivery of services to employees. In the last four years, a number of the bureaus have designated full-time headquarters ethics program managers.

In December 2004 and January 2005, the Office of Government Ethics conducted a programmatic review on the Department's Ethics Office, as well as the ethics programs at the U.S. Geological Survey, Minerals Management Service, and Bureau of Reclamation. The final report specifically stated that all written ethics advice reviewed during the audit was consistent with the law and responsive to employees' needs. The Department's Ethics Office has implemented all program efficiency recommendations contained in the report and is continuing work on an additional recommendation concerning the revision of supplemental ethics regulations. The three bureaus covered in this report also completed all of the Office of Government Ethics' recommendations for improvement.

In late 2005, the Office of Government Ethics initiated a program review of the National Park Service's (NPS) ethics program, issuing a report earlier this year. The recommendations contained in this report have been fully implemented where possible, and others are near completion. The review pointed out that the NPS program exceeds requirements for employee ethics training. Additionally, Interior has contracted to perform internal assessments for the Bureau of Indian Affairs, the Fish and Wildlife Service, and the Office of Surface Mining Reclamation and Enforcement. With this work, all of Interior's bureaus will have been reviewed formally by the Office of Government Ethics or internally by the Department's Ethic Office within the last two years.

A major component of a robust ethics program is training, including the required annual ethics training for employees. Interior provides a variety of mechanisms for employees to meet the annual training requirement: live classroom, computer-based modules, written materials, and live satellite broadcasts. In 2005, our ethics office also developed and delivered training geared to investigators and auditors in the Office of Inspector General in order to ensure a better understanding of the elements of statutory and regulatory violations. Finally, in support of a stronger Department-wide ethics program, the Department's Ethics Office conducted two "Train the Trainer" sessions for field ethics counselors in Denver and Phoenix early in 2006, reaching about 75 ethics counselors across bureau jurisdictions. The goal of these programs was to ensure consistent management of the ethics program and consistent interpretation of the ethics rules in response to employee inquiries.

In short, during this Administration's tenure, the Department's Ethics Office has grown in stature from being an office centered on narrow delivery of service to individual employee questions to a broader mission of ensuring soundness of all bureau ethics programs and Departmental initiatives. Interior employees are now afforded ample access to qualified officials who give consistent advice. In raising the visibility of this office and making ethics a part of the workplace, this office is now consulted in a variety of matters where it previously was not. This leads to a coordinated and thoughtful review

of ethics issues at all levels of the Department, ensuring the operation of a robust ethics program.

Under the leadership of Secretary Kempthorne, the Department continues to strengthen its efforts to meet the highest standards of ethical conduct. Among his first actions on day one in the Department was to meet with the Ethics Office and the Inspector General. Secretary Kempthorne meets regularly with the IG. Over the past five years, I and other senior departmental leaders have also met regularly with the IG and have strived to advance management improvements based on his reports and recommendations.

**Appraisals.** Our performance process has resulted in significant management improvements. In 2002, the Inspector General found fault with the Department's appraisal methodology. The Department then created an interdepartmental body, the Land Transaction Working Group, comprising of assistant secretaries and bureau directors with land management responsibilities. It promulgated a set of broad land transaction principles underscoring the need for integrity, good faith, transparency, and other basic considerations necessary to assure public confidence. These principles were approved by the Secretary and are now in effect.

The Working Group concluded that significant restructuring was necessary and recommended the consolidation of appraisal functions performed by bureaus in a new Departmental office. Secretary Norton approved this recommendation and announced the Department's intent on June 19, 2003. She cited the need for "fundamental reform," stating that "our new organization will change the way we do business and will gain the respect of both the public and the dedicated professionals in our appraisal and realty programs." The reorganization was widely praised as addressing an issue that had been repeatedly raised by auditors and others for some 50 years.

The Department now has a new Office of Appraisal Services (OAS). Appraisers working in bureaus were transferred to the new office. The Office is headed by a Departmental chief appraiser – a new position – to whom all appraisers in the field report through a regionally based structure, including seven regions, each headed by a regional supervisory appraiser. This change in reporting structure—appraisers reporting to appraisers rather than to those responsible for making transactions—is a crucial change. Through the creation of the appraisal office, the Department met important management objectives to:

- enhance or restore public confidence in the Department's appraisal functions and land transaction processes in general;
- respond to bureau realty priorities;
- promote good government;
- avoid disruption to employees; and
- assure the efficient use of taxpayer dollars.

**Law Enforcement.** In March 2001, Secretary Norton asked the Inspector General to conduct a comprehensive assessment of law enforcement within the Department to

identify organizational and management strategies that might be adopted to address issues that affected law enforcement across the Department. The Department has nearly 4,000 law enforcement officers assigned to seven distinct organizational units within five bureaus: the National Park Service, Bureau of Land Management, Bureau of Indian Affairs, Bureau of Reclamation, and US Fish and Wildlife Service.

The Inspector General conducted the assessment and issued its report in January 2002. It found that having seven different programs had created a lack of organizational structure, which led to a void of leadership, coordination, accountability, and central point of contact at the Department level. The law enforcement programs had no single advocate and no informed senior law enforcement official to offer advice and recommendations to senior management. Without a centralized facilitator, Departmental initiatives had not been implemented, and coordinated law enforcement efforts were rare.

The bureaus had been operating their programs with minimal Departmental oversight and direction. Each bureau had near total autonomy with the ability to determine law enforcement priorities, funding, and investigative direction. In addition, in the three years prior to the January 2002 report, Interior had spent in excess of \$1.5 million to have law enforcement programs assessed by consultants only to have the thoughtful recommendations advanced by these professional law enforcement and management experts largely ignored.

The Inspector General's report confirmed and validated the findings of many of the reviews, evaluations, and assessments that preceded it. The report made 25 recommendations for improvement. To accomplish one of her principal objectives—"develop and maintain the most professional, modern, and effective law enforcement capability in a civilian government agency"—Secretary Norton convened a Law Enforcement Review Panel, comprising of senior leadership of the Department and bureaus, to evaluate the report and make recommendations to the Secretary regarding implementation.

In July 2002, Secretary Norton approved the 25 recommendations of the Review Panel and directed that the Department and bureaus implement them. Also in July, the Department created and filled the Deputy Assistant Secretary for Law Enforcement and Security position, essentially creating the Office of Law Enforcement and Security, the entity charged with implementing all of the remaining Secretarial Law Enforcement Directives.

In August 2003, the Inspector General issued a progress report on implementation. The progress report found eight directives had been fully implemented and seventeen ranged from limited to reasonable progress made. It concluded that significant progress had been made; the establishment of the Deputy Assistant Secretary for Law Enforcement and Security and increased staffing within the office had served to professionalize the Department's law enforcement programs, as well as the establishment of senior law enforcement managerial positions in all the bureaus. However, accountability for programs and personnel remained to be adequately addressed. Other concerns included a

lack of the development of staffing models, efforts to increase officer safety, and the lack of attention to initiating internal affairs programs.

In April 2006, the Inspector General issued a second progress report finding that nine of the directives had been fully implemented, twelve were in progress, and three showed inadequate progress. The report concluded the Department has continued to improve its law enforcement programs, though not at the pace the Inspector General would like. The Department still must balance its role of providing policy and oversight of bureau law enforcement, security, and emergency management programs with the mission specific needs of each law enforcement entity. The Inspector General pointed out that some of the bureaus need to fully commit themselves to full implementation of a number of directives.

Overall, however, in tackling the issues related to law enforcement, this Administration has taken on a deficiency that existed in the Department for many years. We have made significant progress in establishing a professional law enforcement and security program.

**Conduct and Discipline.** Based on a recent evaluation of conduct and discipline at Interior, the Inspector General has noted a perception by employees that a significant amount of misconduct is not being reported and that discipline is administered inconsistently and unfairly in the Department. The Inspector General reported that disciplinary measures are not taken when needed and that, without intervention, inconsistent discipline would become increasingly problematic for the Department.

We took these findings seriously and immediately prepared a comprehensive action plan to address the Inspector General's recommendations. Using that action plan, we have:

- Sent a memorandum to each employee communicating the steps to be taken in addressing the Inspector General's findings in order to better implement our Conduct and Discipline policies;
- Updated our Conduct and Discipline policy and published it in the Departmental Manual on the Interior website.
- Planned for 2007 a comprehensive strategy for managing conflict and resolving disputes that arise in the workplace. Through ongoing education, training, and resources, we expect to reduce confusion and miscommunications that surround conduct and discipline issues.

Currently, the Department is conducting training sessions for supervisors and senior managers regarding the use of the new Conduct and Discipline policy. In fact, this topic will be addressed in multiple sessions at the Department's Human Capital Training Conference next week that will be attended by approximately 400 of its human resources, civil rights, and employee development professionals.

Meanwhile, the results from the Federal Human Capital Survey administered by the Office of Personnel Management shows that the response by Interior employees to questions about fair resolution of complaints and grievances and fear of reprisal in the

workplace were not significantly different from several other Cabinet level agencies. For example, when asked whether complaints were fairly resolved in the employees' work unit, our employees' responses placed us in about the middle and well ahead of eight other large Federal agencies. When asked whether they could report a suspect violation without fear of reprisal, Interior's response placed it behind of some agencies and again well-ahead of several others. This is not to say that Interior is without problems. It does signal, however, that when Interior identifies a problem, whether in morale, conduct and discipline, appraisals, or in any of the other examples highlighted in my response and the many more which I could have highlighted, time permitting, Interior works proactively to solve the problem and its efforts place it well within the mainstream of other Federal agencies.

**Worker's Compensation.** In May, 2005, the Inspector General released its evaluation of the Department's implementation of the Workers Compensation Program. Overall, the Inspector General found that Interior must assume more active responsibility for management of its own workers' compensation cases. Costs have continued to rise, exceeding \$58 million for the last two fiscal years. Increases are due to three factors: (1) payroll increases and increased medical costs; (2) increases in the total number of people receiving workers' compensation, and (3) limited success analyzing and managing short- and long-term disability cases.

The Inspector General's findings and recommendations are being aggressively pursued. The Department has hired a full-time, national program manager at the Department level to focus on this program. We are also creating consistent and comprehensive policies and procedures for use throughout the Department, emphasizing accountability for workers' compensation costs at the field level. We plan to train existing employees to better perform their jobs and focus on maintaining fully documented, up-to-date case files.

**Facilities Management.** This Administration has undertaken a major effort with respect to facilities management. Interior's real property inventory includes approximately 46,200 buildings and 101,890 structures, a portfolio second only to the Department of Defense. Our facilities portfolio includes wastewater treatment plants, dams, electric generating facilities, hotels, campgrounds, roads, boat docks, stables, and even landfills. In 2001, we realized there was no objective measure for determining the condition and needs of the assets we held. Indeed, the Department had never developed a complete inventory of its facilities.

The infrastructure of the National Park System alone includes more than 26,000 historic structures and other buildings, an estimated 8,500 monuments, over 12,000 miles of trails, some 1,200 water systems, about 1,400 wastewater treatment plants, and more than 5,000 employee housing units. The road network consists of nearly 5,500 paved miles of road, an estimated 6,000+ miles of unpaved roads, and some 1,700 bridges.

An investment in a state-of-the-art facility management software system has allowed the National Park Service to develop a facility management strategy for the 21<sup>st</sup> century and

generate information about its assets across the organization. Its first cycle of assessments should be completed by the end of 2006. In addition to software investments, the National Park Service now is developing an inventory of all assets and cyclic evaluation of the condition of those assets. Parks are able to identify any deficiencies that need to be addressed in order to bring a facility to a satisfactory condition and extend the useful life of the asset. The software links to an industry-standard, cost-estimating tool so that the cost to repair the asset is determined immediately. We are now able to evaluate the impact of particular funding levels on asset performance and condition. This capability is transforming our asset management to the great benefit of the American taxpayer and visiting public.

This information allows the National Park Service to measure progress against the industry-standard measure of a facility condition index for buildings and the pavement condition rating for roads. We now can gauge the results of investments in our assets.

In addition, building on a five-year effort, the Department has now issued a Departmental asset management plan. The plan presents a strategic vision and plan of action for managing owned and leased buildings, structures, linear assets, motor vehicles, and non-stewardship land used for administrative purposes.

We have made great strides in facilities and asset management. Serving the public well means knowing what we have and managing it well. Using the tools mentioned above, the National Park Service has completed, undertaken, or planned some 6,000 projects to improve its facilities and roads. The Bureau of Indian Affairs is now using similar information to plan and manage school construction and maintenance projects.

**Integrated Charge Card Program.** Beginning in 1998, because of changes made by the General Services Administration to the credit card program, Interior saw an opportunity to re-engineer our business practices. A cross-functional team was established that is still functioning. Since that time, we have created a detailed policy regarding government-issued charge cards. We have put system controls on all accounts, required training for all cardholders and approving officials, and established reports to monitor activity. In addition, we have a process in place to refer suspicious activity to the Office of Inspector General.

Interior's integrated charge card program is unique in the Federal government. By combining three separate charge card programs—purchase, travel and fleet—into one program, we were able to:

- Eliminate redundant accounting processes;
- Improve monitoring by combining all account transactions into one data base; and
- Solve the problem of reconciling burdensome airline ticket invoices.

We have taken aggressive action to minimize the potential for misuse and fraud. We have created account controls by placing authority and spending limits on accounts. We have developed and instituted three on-line training courses for cardholders, approving officials, and agency or organization program coordinators participating in the integrated

charge card program. Each training program instructs participants in their roles and responsibilities and the proper use and management of the charge card. We appoint approving officials that assist in carrying out duties under the program.

In addition, to assist in managing the program, the Department's Charge Card Management Team worked with Bank of America to create a series of electronic reports. These reports help us identify potential misuse, manage delinquency, and track spending. We also require bureaus and offices to perform periodic reviews (no less than biennially) of the program. Specifically, they are to examine whether the number of cardholders with purchase authority and cardholder spending limits should be adjusted. A review of the charge card purchase business line is included in bureau acquisition management reviews.

When problems with this program are identified, the Department takes the appropriate action, including removing employees from Federal service. Several cases have been successfully prosecuted, and the employees involved have had to make restitution and serve jail time. As a result, the delinquency rate for Interior travel charge cards is well below that of the government-wide average.

**Centralization versus Decentralization.** Questions have been raised as to whether a Department with eight distinct bureaus having sometimes very divergent missions can be properly managed. I believe the answer is yes. While our bureaus have distinct missions, those missions also share many common programmatic and administrative features. We house within the Department of the Interior the National Park Service, the U.S. Fish and Wildlife Service, the Bureau of Land Management, the Minerals Management Service, the Office of Surface Mining, the Bureau of Indian Affairs, the U.S. Geological Survey, and the Bureau of Reclamation. Each of these bureaus has a need for specific skill sets to carry out its mission.

One of the challenges of the leadership at Interior is balancing between the need to coordinate the activities of these bureaus while ensuring that the mission specific requirements of the bureaus are met and are met in a way that recognizes the needs and concerns of our partners on the ground, including Indian tribes, local and State governments, and the broad range of groups and individuals affected by our actions. Each of our bureaus has statutory authority vested in the Director of that bureau to carry out varying activities and programs.

In determining the appropriate organizational and management structure to carry out shared functions such as law enforcement, appraisals, human resource training, financial management, and so on, we carefully evaluate the benefits of fully centralizing functions versus maintaining coordinated policies that are then implemented through individual bureau structures. For some information technology systems and management, we have moved toward centralized purchasing to achieve economies of scale and improved security. For appraisal services, we have created a centralized office with regional affiliates. For law enforcement, we have created a departmental coordinating structure while retaining law enforcement structures within the relevant bureaus. Each of these structures was carefully selected based on an evaluation of management efficiency and

programmatic and functional effectiveness. Consider law enforcement. The U.S. Park Police has a different mission and therefore different needs than the Bureau of Reclamation's law enforcement officers. We apply common management principles to all law enforcement, but each of these forces needs to be particularly attendant to its respective mission. Our bureaus must be able to connect with their customers and work effectively with their partners on the ground.

All large, multi-unit organizations faced challenges of finding the right balance between centralization and decentralization. Any book on management theory will tell you that centralizing control of operations can sometimes result in cost reduction, reduced duplication, and improved consistency. However, there are disadvantages as well. The flexibility of an organization to respond to local issues and needs is often compromised; centralization can result in cumbersome processes and detachment from on-the-ground management needs. By removing control from bureaus, a shift may occur in decision making that results in decisions made by managers far removed from the realities on the ground. Obviously, every organization needs to operate with a balance between these two tensions and finding that balance can be difficult.

You should know Mr. Chairman that these are issues the leadership at Interior grapple with on a daily basis. This Administration has brought much needed management change to the Department of the Interior. I believe that record has yielded significant management improvements that benefit the American public. In an organization with the size and reach of the Interior Department, unanticipated and unacceptable decisions and actions may sometimes occur. We take such actions extremely seriously and strive to address them. I would be happy to answer any questions you might have at this time.